

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFICORP for
General Rate Relief and Authority to
Increase its Electric Rates and Charges
for Electric Service in Test Year 2007
and 2008-2009 Attrition Years

A.05-11-022

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

Pursuant to Rule 44 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the Division of Ratepayer Advocates (DRA) submits this Protest to Application 05-11-022 (Application) of PacifiCorp for the Authority to Increase Rates in Test Year 2007 and 2008-2009 Attrition Years. The Application was noticed in the Commission's calendar on December 2, 2005; hence, in accordance with Rules 44.1, this protest is timely filed.

DRA respectfully requests that the Commission hold a prehearing conference in mid-March 2006 to establish a schedule.¹ This will allow DRA the necessary time to review the application, conduct some initial discovery, and evaluate the request more thoroughly to determine the time required to complete its investigation and submit its report.

¹ On December 22, 2005 the Commission noticed a prehearing conference for January 18, 2006.

II. BACKGROUND

On November 29, 2005, PacifiCorp filed A.05-11-022 to increase its revenue requirement by \$11.0 million for test year 2007. If granted, this request would increase PacifiCorp's rates 15.6 percent overall, with a nearly 21 percent increase in residential rates. The items contributing to the requested rate increase are:

<u>Description</u>	<u>Amount/%²</u>
	(\$ in millions)
Additional Net Power Costs	\$2.5 (15.6%)
Plant Additions/Depreciation Expense	3.3 (20.6%)
Revised Return on Equity and Capital Structure	2.6 (16.3%)
Increase in Pension Costs	2.0 (12.5%)
Increase in Other Employee Benefits	0.9 (5.6%)
Other Operating Expense Increases	<u>4.7 (29.4%)</u>
Total Increase in Revenue Requirement	\$16.0 (100.0%)
Increased Revenues (approximate)	<u>(5.0)</u>
Net Increase in Revenue Requirement	\$11.0

III. IDENTIFIED RATE CASE ISSUES

PacifiCorp's A. 05-11-022 seeks a substantial rate increase of \$11 million in test year 2007. DRA will conduct extensive discovery on the issues raised by the Application and will make recommendations to the Commission as appropriate. The following is a non-exhaustive list of the issues DRA currently intends to explore based on DRA's understanding of the issues at the present time. Discovery and analysis may eliminate some of these issue areas and yet others may arise.

1. Additional Net Power Costs

PacifiCorp claims that the ongoing volatility of the energy wholesale market justifies an adjustment clause for increased energy costs (Energy Cost Adjustment Clause

² Application (A.) 05-11-022, Testimony of Andrew N. MacRitchie, Exhibit (Ex.) PPL/100, pp. 31-32.

(ECAC)) in order to assure that adequate fuel supplies are available for reliable service. The company states that despite its large and diverse portfolio of fuels, which historically has insulated its ratepayers from high rates, it now faces greater risk. For example, at a time when its hydroelectric sources are currently depleted, it must purchase coal when the price of this fuel is beginning to track gas prices. Purchased power including purchased fuel purportedly accounts for 48% of PacifiCorp's operating expenses.

2. Plant Additions/Depreciation Expense

PacifiCorp claims that it will have spent \$24 million on distribution plant since its last rate case, i.e., from November 2003 through test year 2007, and requests commensurate rate recovery.³ Additionally, PacifiCorp has identified transmission investments of \$462 million that it plans to make over the next 10 years,⁴ as well as long term costs associated with generation, and FERC proceedings to renew the licenses of its Klamath River hydroelectric facilities.⁵ DRA intends to thoroughly review PacifiCorp's forecasts in this area.

3. Revised Return on Equity and Capital Structure

The company's current return on equity (ROE) is 10.90 percent. PacifiCorp requests an ROE of 11.80 percent based on its analyses using Discounted Cash Flow (DCF) and Risk Premium financial models, and inclusion of a risk premium of 80 basis points to reflect various industry and company-specific risks such as multi-state operations and the lack of a fuel balancing account. Additionally, the utility proposes to reduce its debt to equity ratio from approximately 48%/49% to 46%/53%, which will result in an overall higher cost of capital.

³ Id., p. 33.

⁴ Id., p. 5.

⁵ Id.

4. Pension Costs and Other Employee Benefits

PacifiCorp projects increases in retirement costs as well as medical, dental, and other benefits. This area represents a significant portion of the rate increase and DRA will independently evaluate the basis for the forecasts.

5. Other Operating Expense Increases

This item includes the cost of meeting new environmental standards, accounting adjustments, insurance, and other short term and long term costs of doing business.⁶

6. Rate Design, including Increase in Klamath Irrigation Rates

Another issue to be deliberated is the company's proposed rate design which would result in a 2007 rate increase of 20.94 percent for residential customers, which comprise 76 percent of PacifiCorp's total customers, and an increase between 8.6 and 13.6 percent for the commercial customers.⁷

PacifiCorp has approximately 400 irrigation customers in California that received special contract rates related to use of the Klamath River for hydropower. Those 50-year contracts expire this year. PacifiCorp proposes to charge these customers the same tariffed rates as other irrigators pay.⁸

7. Energy Cost Adjustment Clause

The company cites volatile energy wholesale markets as the reason for its request for a mechanism that would allow it to recover actual power costs if those costs are more than five percent higher or lower than forecasted power prices. PacifiCorp proposes establishing an Energy Cost Adjustment Account (ECAC).

The proposed ECAC would unbundle net power costs from other rates and collect them through the Energy Cost Adjustment Billing Factor (ECACBF), which would be

⁶ Id. Robert Lively of PacifiCorp provided additional information in a phone call with DRA's project manager Martin Lyons.

⁷ Id., Testimony of Michael B. Reid, Ex. PPL/1300, p. 3.

⁸ Id., p.7.

applied to the total kilowatt hours for each bill. PacifiCorp proposes establishing monthly accruals to the ECAC, which would be the California-allocated share of the difference between projected power costs for the entire company, adjusted by the ratio of California's actual sales to projected sales and adjusted actual net power costs for the entire company, multiplied times the applicable interest rate.²

PacifiCorp notes that granting its request for the ECAC account would partially mitigate the need for some of its proposed risk premium associated with its requested return on equity.

8. Attrition Adjustment Mechanism

PacifiCorp is requesting a three element mechanism, which it formally identifies as a Post Test-Year Adjustment Mechanism (PTAM). The components consist of: (1) an annual adjustment of inflation for its operating costs, (2) an annual adjustment for its rate base increases, and (3) a Z-factor for other, presumably uncontrollable and significant cost increases. If the Commission grants the attrition adjustment mechanism, PacifiCorp acknowledges that this further decreases the need for its request of an 80 basis point risk premium for its ROE.¹⁰

IV. SPECIAL ISSUES

The incorporation of some ancillary issues in addition to the more routine cost of service concerns add to the workload of this case. These include:

- PacifiCorp operates in six states. This is the first Commission proceeding considering PacifiCorp's Revised Protocol, which allocates costs among those six states. DRA must carefully evaluate the impact of the revised protocol on the jurisdictional allocation of costs.

² Id., Testimony of Mark T. Widmer, Ex. 500, pp. 5-6.

¹⁰ Id., Testimony of Andrew N. MacRitchie, Ex. 100, p. 9.

- PacifiCorp is requesting the establishment of the two new adjustment mechanisms previously discussed: a balancing account for fuels and an attrition mechanism.
- PacifiCorp requests that rate design and marginal cost allocation be completed in this phase.
- Cost of capital issues, including rate of return, return on equity, and changes to its capital structure are included in the Application.

Some of these issues are included in the smaller energy general rate cases depending on the specific company. Nonetheless, DRA will address all these issues but requires adequate time to conduct discovery, evaluate the proposals, develop its recommendations and prepare its report.

V. PROCEDURAL SCHEDULE

Initial review of the Application shows that extensive discovery is necessary to augment the filing, which lacks sufficient workpapers, cross references and other documentation to support many of the major costs that comprise the requested \$11 million increase. DRA has met once with PacifiCorp staff to obtain additional information and anticipates additional meetings this month. But PacifiCorp's proposed schedule is nevertheless infeasible, particularly given the number of issues that DRA must address.

Prior to its filing, DRA discussed with PacifiCorp its inability to fully staff the proceeding until January 2006. This is because some of DRA's staff are still committed to completing their responsibilities associated with the Sierra Pacific general rate case.¹¹ In the meantime, DRA is conducting discovery in areas in which assigned staff are able to commence their review and investigation.

PacifiCorp's schedule requests a prehearing conference on January 16, 2006. In order to preserve schedule flexibility and encourage an open information exchange, DRA

¹¹ A.05-06-018. Hearings are scheduled January 23-27, 2006. In addition, some of DRA's witnesses are concurrently assigned to Pacific Gas and Electric Company's general rate case, A.05-12-002.

recommends that the Commission convene a prehearing conference in mid-March before establishing a schedule. This will provide DRA a reasonable opportunity to conduct initial discovery, evaluate the request more thoroughly, and determine when it can complete its investigation and submit its reports.

VI. CLASSIFICATION OF PROCEEDING

DRA agrees with PacifiCorp that in accordance with Rule 5 (c) of the Commission's Rules of Practice and Procedure this is a ratesetting proceeding.

VII. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that the matter be set for hearing and that the scope of the proceeding include, but not be limited to, the issues identified in this protest. Although the Commission noticed a prehearing conference for January 18, DRA respectfully requests that the Commission reissue the notice, setting a prehearing conference for no earlier than mid-March 2006, and that a procedural schedule be established at that time. This will leave ample time to develop a schedule that provides DRA sufficient time to prepare its reports, while assuring that this application is processed before the commencement of the 2007 test year period.

Respectfully submitted,

/s/ DIANA L. LEE

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January 3, 2006

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES** in **A.05-11-022** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on January 3, 2006, at San Francisco, California.

/s/ **MARTHA PEREZ**

Martha Perez

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

